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IS GERMANY BANKRUPT?

BY HAROLD G. MOULTON

Is Germany bankrupt? Was it her staggering national indebtedness and rapidly approaching, if not already existent, financial insolvency that prompted that summary capitulation of the German Government? These questions have been widely discussed in financial and business circles during recent months. They are of more than historical interest. Upon the existing state of industry and finance depend the possibility of an early payment of indemnities for the losses inflicted upon the Allies during the war. Upon Germany's ability, moreover, to return quickly to a normal production and distribution of food and other necessities of life largely depends the spread of Bolshevism in Central Europe. Revolution breeds best in an empty larder.

If the German nation is indeed bankrupt, it is sheer futility on the part of the Allies to attempt to make the Hun pay in the near future,—a bankrupt nation cannot liquidate its obligations. Nay, it is worse than futility, for it would serve to fan into fuller flame the smouldering fires which even now threaten the conflagration of the erstwhile Fatherland. We must obviously either discard the notion that Germany is bankrupt or abandon the idea of an early indemnification of the losses that have been inflicted. The time would therefore seem to be opportune for examining the prevailing belief that Germany is financially insolvent.

In proof of the contention that Germany must have been virtually, if not actually, bankrupt at the end of the war, statistics are usually presented which compare the annual interest charges on the public debt with the annual savings of the nation before the war. It is observed that

in the spring of 1918 the interest charges on the German war debt reached the approximate sum of \$1,450,000,000 a year, and it is believed that by the end of the year it had reached \$2,000,000,000. Now, according to the official estimates of Dr. Helfferich the annual savings of Germany before the war were a little less than \$2,000,000,000. Assuming that these savings could not have been increased during the war, Germany was living beyond her income; the annual savings were less than the annual interest.

And besides the annual interest charges it is pointed out that Germany must make provision for the gradual extinguishment of her huge national debt, requiring the setting aside of an annual sinking fund of perhaps \$600,000,000 a year. Nor is this all; for there must of course be pensions for the disabled and for the widows and dependents of deceased officers and men—estimated to reach as a minimum \$700,000,000 a year. Now add to all this an indemnity of \$94,000,000,000, as has been suggested—payable, let us say, at the rate of a billion a year, plus interest on the balance, for ninety-four years. Would it not be enough to drive any nation to economic and political anarchy?

But let us pass by the indemnity—for this is not our present problem—and consider merely the meaning of these statistics of German indebtedness. Do they or do they not—accepting them as authentic—reveal a real national bankruptcy? The analysis that follows is intended to show that these statistics reveal nothing of the kind—that they are almost entirely beside the point.

The fundamental fallacy in these figures of war indebtedness is that they show only one side of the financial accounting involved. The problem of war finance is almost universally approached with the assumption that when a nation borrows, it necessarily borrows from an outside party, who becomes its creditor—just as when an individual borrows he places himself in a position of debtor to another person. The analogy between individual borrowing and national borrowing holds good, however, only so long as the nation borrows by placing its loans in foreign countries. It must be borne in mind that Germany is not financing this war by borrowing from outsiders. It is practically all being done through domestic loans and taxes. When it is pointed out, therefore, that the interest

charges which Germany has to meet each year are \$2,000,000,000, or more, one must reflect that this interest is received by the German people as well as paid by the German people. Similarly, when it is argued that an enormous tax will have to be levied after the war to pay pensions, it must again be reflected that the government in its financing is merely transferring funds from German people to German people. The people of Germany, as a whole, as indicated by the Treasury statistics, merely owe the people of Germany a staggering total of wealth, expressed in monetary terms.

Indeed, where a nation does not borrow anything from abroad, its Treasury statements are in a sense nothing but bookkeeping records. They register in a financial way the value of the goods and services of the nation that during the war have been devoted to public ends. The sum total of all private budgets would in a similar way reveal the total of goods and services that during the war had been devoted to private ends. During four years of war these private budgets would not represent a debt to be paid to some external parties. They would merely be a record of four years' private consumption of wealth, nearly all of which had been produced during these very years. Similarly, the Treasury records of war expenses show the aggregate of four years' public consumption of wealth,—nearly all of which was produced during these very years. This truth that the goods and services devoted to the waging of war were nearly all produced during the war (even in Germany with all her preparedness) must be clearly perceived; for in it lies the explanation of the oft repeated dictum of the economist that, unless a nation borrows abroad, it cannot shift the cost of the war to the future⁽¹⁾; it must pay as it goes. If, at the end of the war, these private budgetary records were all destroyed, and if the books of the Treasury were burned, would this have any net effect upon the *real* wealth of Germany? Did, in fact, the repudiation by new Russia of the domestic debt of old Russia lessen one iota the existing stock of Russian wealth?

No, national debts owed to the nation's own citizens are merely the paper claims of individuals to ownership of the existing supply of national wealth and to wealth that may be produced in the future. The payment of a

¹ Except as indicated in the third paragraph following.

domestic debt at the end of the war does not therefore in any sense involve a net reduction in the total wealth of the nation; it means merely that the government will collect, through taxation of the people, funds which will in turn be paid back to the people—that is, to the owners of government bonds and other obligations. Now, if all had contributed equally to the financial support of the war, and if post-bellum taxes were levied in exact proportion to the bond holdings of those who financed the war, the payment of Germany's war debt would be merely a balancing of the books and without economic significance except in so far as it required a large force of people to collect the revenue, make the disbursements, and keep the necessary financial records.

But individuals do not in fact ever contribute to the financing of a war in equal proportions, nor is it ever possible to adjust the incidence of post-war taxation precisely in proportion to individual contributions to war finance. War finance, therefore, always involves readjustments in property and income among the various groups of people who make up the state. It may result in giving to certain classes a larger proportion of the national wealth than before; it may give to others less. But by itself, domestic borrowing has no direct effect upon the immediate total of a nation's wealth.

The real costs of war to a nation are not to be measured in terms of money. They are to be measured rather by the deterioration of plant and equipment; by the exhaustion of natural resources; by the loss of new capital which would have been created had not war diverted the energies of the people from construction to destruction; by the decimation and impoverishment of her population—impoverishment in the sense of being undernourished and in subnormal health conditions; and by the arrested training and development of the youth of the land.

Thus measured, Germany will be seen to be far from bankrupt. At the conclusion of hostilities she had a population nearly equal to that in 1914 (at the outside, two millions less); she still possessed her original agricultural area, though doubtless somewhat impaired as to fertility; and she still possessed her mines of raw materials, her factories, and her transportation lines, though unquestionably much the worse for wear and tear. In short,

when stripped of the monetary camouflage, we find that Germany is still a puissant as well as solvent nation. Indemnity aside, she is in debt to foreign nations scarcely a copper. She has her internal reckonings and financial adjustments to make, to be sure,—no simple problem this,—but she is not in any sense financially insolvent. Given political and economic stability and access on equal terms with other nations to the supplies and to the markets of the world, and a decade might see Germany largely recovered from the economic effects of the war.

HAROLD G. MOULTON.